Denker SCI* Global Equity Feeder Fund

Minimum Disclosure Document

As of 2019/01/31

MDD Issue Date: 2019/02/20

Fund Objective

The objective of the portfolio is to provide above average long-term capital growth by investing in global equities which the Investment Manager has identified as being undervalued and as offering above average growth potential. This fund is a feeder fund which invests only in the Sanlam Investment Management Global Best Ideas Fund, managed by Sanlam Asset Management (Ireland). The portfolio may also hold ancillary liquid assets including cash and or money market instruments.

Fund Strategy

The Investment Manager seeks to achieve the objective of the fund by investing in undiscovered or neglected global equities that the Investment Manager has identified as being undervalued and offering above average growth potential over time.

Why Choose This Fund?

- The fund invests in undervalued equity stocks, the research focus being on undiscovered or neglected stocks.
- The fund employs an active stock-picking investment process.
- It is a Rand denominated fund. No foreign exchange tax clearance is required.

Fund Information

Ticker	SLFA
Portfolio Manager	Pierre Marais
ASISA Fund Classification	Global - Equity - General
Risk Profile	Aggressive
Benchmark	MSCI World Index
Fund Size	R 477 363 663
Portfolio Launch Date	2007/02/26
Fee Class Launch Date	2007/07/02
Minimum Lump Sum Investment	R 5 000
Minimum Monthly Investment	R 500
Income Declaration Date	December
Income Pricing Date	1st business day of January
Portfolio Valuation Time	15:00
Transaction Cut Off Time	15:00
Daily Price Information	Local media
Repurchase Period	3 business days

Fees (Incl. VAT)	A-Class (%)
Maximum Initial Advice Fee	3.34
Maximum Annual Advice Fee	1.15
Manager Annual Fee	1.44
TER	2.34
TC	0.16
TIC	2.50
TER Measurement Period	01 October 2015 - 30 September 2018

Total Expense Ratio (TER) is the percentage value of the Financial Product that was incurred as expenses relating to the administration of the Financial Product. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER may not necessarily be an accurate indication of future TER's.

Transaction Cost (TC) is the percentage value of the Financial Product that was incurred as costs relating to the buying and selling of the assets underlying the Financial Product. Transaction Costs are a necessary cost in administering the Financial Product and impacts Financial Product returns. It should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of Financial Product, the investment decisions of the investment manager and the TER.

Total Investment Charges (TER + TC) is the total percentage value of the Financial Product that was incurred as costs relating to the investment of the Financial Product.

*Denker Sanlam Collective Investments Global Equity Feeder Fund

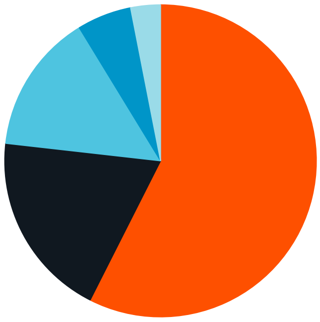
Top Ten Holdings

Top Ten Holdings	(%)
Portfolio Date	**2018/12/31**
Microsoft	5.43
Cisco	4.87
Becton Dickinson & Co.	3.97
Medtronic Inc	3.66
Apple	3.42
JP Morgan	3.35
Oracle	3.30
Verizon	3.13
Unilever	2.95
Royal Dutch Shell	2.92

These are the top holdings of the offshore fund in which this feeder fund invests.

Asset Allocation

Portfolio Date: 2018/12/31



	%
North America	57.46
United Kingdom	19.33
Europe (Developed Markets)	14.47
Asia (Developed Markets)	5.65
Asia (Emerging Markets)	3.08
Total	**100.00**

Annualised Performance (%)

	Fund	Benchmark
1 Year	-1.36	5.04
3 Years	1.90	5.35
5 Years	6.06	11.31
10 Years	9.99	15.12
Since Inception	4.20	10.81

Cumulative Performance (%)

	Fund	Benchmark
1 Year	-1.36	5.04
3 Years	5.80	16.91
5 Years	34.21	70.89
10 Years	159.07	308.96
Since Inception	63.34	239.85

Highest and Lowest Annual Returns

Time Period: 2010/01/01 to 2018/12/31	
Highest Annual %	26.01
Lowest Annual %	-10.40

Risk Statistics (3 Year Rolling)

Standard Deviation	19.53
Sharpe Ratio	-0.18
Information Ratio	-0.55
Maximum Drawdown	-19.48

Distribution History (Cents Per Unit)

2018/12/31	0.00 cpu	2016/12/31	0.00 cpu
2017/12/31	0.00 cpu	2015/12/31	0.00 cpu

Administered by

Sanlam

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Risk Profile

Aggressive
This is an aggressively managed, high-risk portfolio that aims to deliver capital growth over the long term (greater than 5 years). It is designed to substantially outperform the markets and therefore carries a long-term investment horizon (5 years and upwards). The portfolio will be diversified across all major asset classes with significant exposure to equities, and may include offshore equities. There may be some capital volatility in the short term, although higher returns may be expected from five years or beyond.

Risk Considerations

- The fund is focused on investment in global listed companies; accordingly the performance of the fund is directly linked to the performance of the global equity markets.
- Investing in international companies means the currency exchange rate fluctuations will have an impact on the fund's investment performance.
- As the SA Rand can be a volatile currency, this could lead to significant fluctuations in the rand value of this fund.

Glossary Terms

Active Stock-picking Process
This is when asset managers actively and tactically vary their stock selections based on economic and market data, and fundamental valuations, etc. This should lessen an investor's exposure to declining markets and helps preserve capital.

Annualised Returns
Annualised return is the weighted average compound growth rate over the period measured.

Asset Allocation
Asset allocation is the percentage holding in different asset classes (i.e. equities, bonds, property, etc.). It is used to determine the level of diversification in a portfolio.

Capital Growth
Capital growth is the profit made on an investment, measured by the increase in its market value over the invested amount or cost price. It is also called capital appreciation.

Distributions
The income that is generated from an investment and given to investors through monthly, quarterly, bi-annual or annual distribution pay-outs.

Derivatives
Derivatives are instruments generally used as an instrument to protect against risk (capital losses), but can also be used for speculative purposes. Examples are futures, options and swaps.

Feeder Fund
A feeder fund is a South African-based fund that feeds exclusively into its primary foreign-based fund. It allows investors easy access to investing in an offshore fund, eliminating complicated tax and other implications. The shares of the feeder fund represent shares in the primary fund (called a master fund).

Information Ratio
The Information Ratio measures the market risk-adjusted performance of an investment or portfolio. The greater a portfolio's Information Ratio, the better its risk-adjusted performance has been compared to the market in general.

LISP (Linked Investment Service Provider)
A Linked Investment Service Provider is a financial institution which packages, distributes and administers a broad range of unit trust based investments. Any investment made through these products gives an investor a single point of entry into a selection of different investments.

Maximum Drawdown
The maximum drawdown measures the highest peak to trough loss experienced by the fund.

Money Market Instruments
A money market instrument is a low risk, highly liquid, short-term (one year or less) debt instrument, issued by financial institutions or governments, that tend to have lower returns than high-risk investments.

Sharpe Ratio
The Sharpe Ratio measures total risk-adjusted performance of an investment or portfolio. It measures the amount of risk associated with the returns generated by the portfolio and indicates whether a portfolio's returns are due to excessive risk or not. The greater a portfolio's Sharpe ratio, the better its risk-adjusted performance has been (i.e. a higher return with a contained risk profile, where the portfolio manager is not taking excessive risk to achieve those returns).

Standard Deviation
Standard deviation (also called monthly volatility) is a measure of how much returns on an investment change from month to month. It is typically used by investors to gauge the volatility expected of an investment.

Undervalued Equity Stocks/ Investing in Neglected Global Equities
This is a strategy of selecting shares that trade for less than their intrinsic values. Value investors actively seek stocks that they believe the market has undervalued. They believe the market overreacts to good and bad news, resulting in stock price movements that do not correspond with the company's actual long-term fundamentals. The result is an opportunity for value investors to profit by buying when the price is deflated.

Additional Information

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Portfolio Manager Quarterly Comment

Quarter to December 2018

Just as a week is a long time in politics (and an eternity in Brexit politics), so a quarter seemed to be a long time in the equity market in 2018. It's worth remembering that at the start of the quarter, world equity markets were some 6% higher in US$ than at the beginning of 2018. As we survey the final 3 months of the year, that rosy state of affairs lies in ruins (MSCI World 4Q 2018 total return: -13.4%).

Sentiment became heavily negative in the quarter as newsflow appeared to take a turn for the worse, culminating in a December market rout. Here are some of the main contributors to a febrile 3 months:

- The usual minute scrutiny of comments from the US Fed delivered a more hawkish than expected verdict in October.
- The US – China trade war seemed to worsen even as the Chinese economy slowed markedly.
- A "hard Brexit" for the UK became more likely.
- Oil prices plunged as worries of oversupply from the US and non-OPEC countries in a slower-demand global economy overwhelmed the hoped for supply cuts agreed by OPEC.

The fund outperformed its benchmark in the December quarter, despite having no exposure to two traditional "risk-off" sectors – Utilities and Real Estate (which both have poor long term cash flow returns). Holdings in Communication Services provided the biggest sector boost to outperformance, with Verizon being one of the few stocks with a positive return in the period (+6%). Following the fall in oil prices, it was no surprise that Energy was the worst sector in the benchmark (-22%). An underweight stance here and avoidance of optimistically priced US energy companies also contributed to good relative performance. The fund's Health Care investments fell less (-6.4%) than the average sector return, with Roche (+1.4%) the standout. Other investments that withstood the market's negative onslaught relatively well were Unilever (-2%), Pepsico (-0.6%) and Novartis (-1.3%), while avoidance of Amazon (-25%) provided a rare boost as well. Among the most relevant detractors to performance were recent acquisition Ashtead Group plc (the London-listed second largest equipment rental business in the US; -34%), Apple (-30%) and Lions Gate Entertainment Corp. (-34%).

Full year 2018

The bear market final quarter of 2018 has left every sector bar Utilities in negative territory for the year as a whole. In addition, the equity indices of all developed market countries (except tiny Luxembourg) have also ended this 12 month period in the red.

The MSCI World Index returned -8.7% in 2018, compared to the fund return of -12%. For the year, the fund's collection of defensive holdings in sectors such as Healthcare stood up well to the market onslaught, but could not entirely compensate for the some 20% drawdown in fund Financial sector holdings or for exposure to the subsector-specific black swan events of the Tobacco sector, which sank 35%. Share prices of the latter dropped in April when the strong growth in Philip Morris International's industry-leading heat-not-burn product appeared to slow in their Japanese test market, thereby dashing investors' hopes somewhat for a promising new growth vector for the industry. Sentiment was further dampened by upstart vaping specialist JUUL's continued market share growth in this area, and a surprise pronouncement by the US's Federal Drug Administration in November regarding their intention to ban menthol in traditional cigarettes in the US. The fund's other holdings in Consumer Staples somewhat compensated for this, with defensives Unilever (-1.2%) and Pepsico (-5.7%) producing better than market returns.

The fund's Consumer Discretionary investments produced poor annual returns, with homebuilder NVR down 31% and UK counterpart Taylor Wimpey down 27%, despite undemanding valuations. Media business Lions Gate Entertainment fell 52%, after becoming a victim of market fears regarding the growing dominance of Netflix (on a "de-rated" PE multiple of 96x at year end) and the increasingly competitive nature of the SVOD/OTT space. Not owning sector behemoth Amazon (+28%), while having exposure to Chinese counterpart Alibaba (-21%) contributed to woes in the sector.

In the Financials sector, excellent returns from French insurer Score (+19%), IG Group Holdings (+18%; sold in August) and recent housing finance acquisition Indiabulls (+9%) partially offset the panic selling in Yes Bank (-47%), after the forced departure of its CEO, steep falls in Prudential plc (-29%), ING Groep (-39%) and AIG (-33%), among others. The Financials sector was the worst performer in the MSCI World Index for 2018 and the second worst sector for the fund.

Despite a plunge in the oil price late in the year, the fund's energy sector holdings gave up only 4.5% of their value, compared to the -16% delivered by this sector in the MSCI World benchmark. This made it the fund's best sector performance relative to the benchmark. The fund's exposure here is via two Europe-based multinationals Total SA (-1.1%) and Royal Dutch Shell (-6.9%).

Health Care yielded the fund's second best sector relative performance and the only sector in the fund with positive returns (+7.7% vs +2.6% for the benchmark). Medical devices businesses Medtronic (+15%) and Becton Dickinson (+6%), and UK-based pharmaceutical business GlaxoSmithKline (+12%), as well as Swiss-based conglomerates Novartis (+3.2%) and Roche (flat) all bucked the negative market trend.

The fund's overweight stance in Information Technology produced the third best sector contributor to performance, where stalwarts Microsoft (the fund's biggest holding; +20%) and Cisco (+16%) produced most of the excess return. These greybeards of the tech space have continued to reinvent their offerings for the cloud-based era and have re-rated considerably in 2018 as the market re-evaluated their "has been" status. Detractors in 2018 were Samsung (-25%) and Micro Focus (-46%). In the former, the semi-conductor business segment - its largest - has de-rated along with semis globally, as the supply demand balance shifts (temporarily) into oversupplied territory. Micro Focus warned on profits in March and abruptly replaced its CEO following poor integration results for its 2016 acquisition of Hewlett Packard Enterprise's software business.

In the newly minted Communications Services sector, the fund benefited from holding Verizon Communications (+9.7%), which has a head start in the imminent rollout of 5G technology in the US, while avoiding Facebook (-26%), which sank from lofty multiples on well-publicised privacy breach issues and slowing growth.

Outlook

With the low volatility of 2017 a distant memory and the hopes of further synchronised global growth dashed on the rocks of trade wars, a dysfunctional US administration, Brexit fears and other European political turmoil, there is certainly a confident forecast out there somewhere by a member of the commentariat for every possible outcome in the year ahead. We pay even less attention than usual to the wide spread of anticipated market trajectories. From our perspective, a necessary correction is unfolding, leaving a more comprehensive suite of undervalued assets to work with. Bleak times are always an opportunity to uncover bargains; we hope to be able to take advantage of these in 2019 and beyond.

The fund endeavours to control risk in a rational manner by dampening hard-to-predict factor exposures and focussing its risk budget on proven bottom-up stock picking.
Based on current consensus expectations the fund offers a more attractive valuation than the overall market (fwd P/E: 11.2x vs. 13.4x and Div Yld: 3.1% vs. 2.7%), while producing a better return (ROE: 22% vs. 18%) and better profitability (operating margin: 23% vs. 20%). The fund has an active share of 87%.

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